

Rhodes ANNUAL REPORT 1967

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

Rhodes

DIRECTORS:

PARK B. DOWD, *Vice President*
HERBERT I. DUNN, *Partner,*
Schwabacher & Co.
J. C. ERNST
JOHN J. GOLDBERG, *Assistant Secretary*
O. JAMES MAUEL
ELLIOTT McALLISTER, *Director,*
The Bank of California, N.A.
LEE G. PAUL, *Partner,*
Paul, Hastings, Janofsky & Walker
JOHN J. REILLY, *Chairman of the Board*
JOHN J. REILLY, JR., *President*
LINDSAY L. RUSCH, *Vice President,*
Secretary and Treasurer
F. A. WICKETT

OFFICERS:

JOHN J. REILLY, *Chairman of the Board*
JOHN J. REILLY, JR., *President*
LINDSAY L. RUSCH, *Vice President,*
Secretary and Treasurer
PARK B. DOWD, *Vice President*
JOHN J. GOLDBERG, *Assistant Secretary*

LEGAL COUNSEL:

Steinhart, Goldberg, Feigenbaum & Ladar

TRANSFER AGENT:

Crocker-Citizens National Bank
1 Montgomery Street
San Francisco, California

PUBLIC ACCOUNTANTS:

Arthur Andersen & Co.

REGISTRAR:

Wells Fargo Bank
464 California Street
San Francisco, California

ANNUAL STOCKHOLDERS MEETING:

Tuesday, April 23, 1968, 11:00 o'clock A.M.
Rhodes-Oakland, Executive Offices, 1501 Broadway, Oakland, California

TO OUR SHAREHOLDERS

March 5, 1968

In 1967 Rhodes sales were \$69,639,283—an increase of approximately 1% over the 1966 figure of \$69,061,842. Net profit for the year increased to \$1,214,058, equal to \$1.51 a share on the common stock, after payment of preferred dividends. In 1966 the profit was \$1,097,077 or \$1.35 a common share.

During 1967 Rhodes paid four regular quarterly dividends of 25 cents a share on common stock amounting to \$704,284 in addition to \$150,000 in preferred dividends. During the year the company acquired 5,338 shares of its common stock which were added to the treasury and a total of 6,700 treasury shares were sold to employees under the terms of the company's employee stock purchase program.

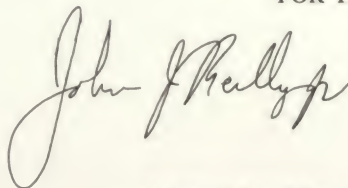
The company's data processing department took over the billing of customer accounts of all 13 stores this past year. Customer bills are now prepared by a computer at one central location. Considerable progress also was made during the year on the centralization of merchandising, buying and sales promotion functions.

In view of the increased centralization of responsibilities in the corporation, the position of Executive Vice President was established in March 1968. Mr. Morton L. Huff was appointed to fill this position.

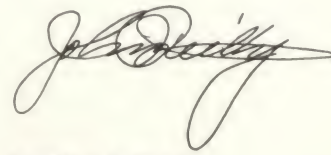
During the year the Board of Directors voted to revise the terms of the company's Profit Sharing Plan so that the company's annual contribution would be more effective. The Profit Sharing Plan has been in effect since 1945 and the revisions reflect current practices. For the year ended January 31, 1968 the company's contribution to the plan amounted to \$171,963.

Ours is essentially a person-to-person service business. We take great pride in the high standards of service our employees render. We extend our sincere thanks to our staff for their effort to make the name Rhodes synonymous with our service. Our thanks as well to our customers, our stockholders and our suppliers for their continued support during the year.

FOR THE BOARD OF DIRECTORS:



JOHN J. REILLY, JR.
PRESIDENT



JOHN J. REILLY
CHAIRMAN

RHODES BALANCE SHEET

ASSETS	January 31 1968	January 31 1967 (Note 5)
CURRENT ASSETS:		
Cash and short-term securities	\$ 1,210,348	\$ 3,169,482
Accounts receivable, less allowance for doubtful accounts— 1967, \$487,000; 1966, \$462,000	14,973,382	14,253,017
Merchandise inventories—at lower of cost or market as determined by the retail inventory method	15,534,767	13,536,757
Total current assets	<u>\$31,718,497</u>	<u>\$30,959,256</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Unexpired insurance, prepaid taxes and other deferred expenses	\$ 653,276	\$ 661,228
Miscellaneous receivables, deposits, etc.	265,071	246,876
	<u>\$ 918,347</u>	<u>\$ 908,104</u>
PROPERTIES, at cost:		
Land	\$ 129,991	\$ 129,991
Furniture, fixtures, equipment, etc.	6,214,509	6,030,994
Leasehold improvements	4,495,949	4,409,442
Accumulated depreciation and amortization	(7,846,131)	(7,221,937)
	<u>\$ 2,994,318</u>	<u>\$ 3,348,490</u>
	<u>\$35,631,162</u>	<u>\$35,215,850</u>

The accompanying notes are an integral part of these balance sheets.

LIABILITIES

January 31
1968

January 31
1967
(Note 5)

CURRENT LIABILITIES:

Accounts payable	\$ 3,785,797	\$ 3,661,759
Payrolls, taxes and other accrued liabilities	1,126,229	917,817
Current instalment on note payable	500,000	500,000
Federal income taxes (including deferred taxes applicable to instalment receivables of \$1,675,000 in 1967 and \$1,620,000 in 1966).	<u>2,755,644</u>	<u>2,555,083</u>
Total current liabilities	<u>\$ 8,167,670</u>	<u>\$ 7,634,659</u>

LONG-TERM NOTE—

5%, payable \$500,000 annually; balance due March 1, 1981 (Note 2)	<u>\$ 7,000,000</u>	<u>\$ 7,500,000</u>
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STOCKHOLDERS' EQUITY:

Cumulative preferred stock, par value \$100 per share, authorized 100,000 shares; issued and outstanding 30,000 shares, 5%, designated as Series A Preferred (Notes 1 and 2)	\$ 3,000,000	\$ 3,000,000
Common stock, par value \$.25 per share—authorized 1,200,000 shares; represented by 709,538 issued shares of which 5,759 shares were held in Treasury on January 31, 1968 (Notes 1 and 3)	177,385	177,385
Capital in excess of par value of common stock (Note 3)	2,544,797	2,438,640
Retained earnings, per accompanying statement (Note 2)	<u>14,741,310</u>	<u>14,465,166</u>
	<u>\$20,463,492</u>	<u>\$20,081,191</u>
	<u>\$35,631,162</u>	<u>\$35,215,850</u>

The accompanying notes are an integral part of these balance sheets.

RHODES STATEMENT OF INCOME

	Year ended January 31 1968	Year ended January 31 1967 (Note 5)
Net sales including leased departments	\$69,639,283	\$69,061,842
Cost of sales	\$45,441,058	\$45,503,129
Selling, operating and administrative expenses, less credit service charges	20,626,624	20,225,165
Depreciation and amortization	627,155	693,168
Contributions under employee benefit plans	454,495	293,248
Interest expense	391,285	401,715
	<u>\$67,540,617</u>	<u>\$67,116,425</u>
	\$ 2,098,666	\$ 1,945,417
Other income	200,392	186,660
Income before federal income taxes	\$ 2,299,058	\$ 2,132,077
Provision for federal income taxes (including provision for deferred taxes of \$55,000 in 1967 and \$60,000 in 1966)	1,085,000	1,035,000
Net income for the year	<u>\$ 1,214,058</u>	<u>\$ 1,097,077</u>

STATEMENT OF RETAINED EARNINGS:

Retained earnings at beginning of year	\$14,465,166	\$14,263,268
Net income for the year	1,214,058	1,097,077
	<u>\$15,679,224</u>	<u>\$15,360,345</u>
Less:		
Cash dividends paid:		
Preferred stock	150,000	150,000
Common stock	704,284	705,057
Cost of Treasury stock purchased	83,630	40,122
Retained earnings at end of year (Note 2)	<u>\$14,741,310</u>	<u>\$14,465,166</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements, January 31, 1968

NOTE 1: ■ The Series A Preferred can be redeemed at (or is entitled to receive in the case of voluntary liquidation) \$105 per share on or before June 1, 1970, the amount decreasing ratably to \$100 per share on June 1, 1979, plus any unpaid and accumulated dividends. The company is required to make payments into a sinking fund on June 1 of each year of \$125,000 for years 1969-1973, \$175,000 for years 1974-1978, and \$300,000 for years 1979-1983, less amounts equal to the par value of Series A Preferred purchased or redeemed. Sinking fund payments are to be used to purchase or redeem Series A Preferred at prices not exceeding the par value thereof.

The purchaser of Series A Preferred was granted a warrant which expires June 1, 1973, entitling the holder to purchase 20,000 shares of common stock at \$22.50 per share. At January 31, 1968, 20,000 unissued common shares were reserved for this purpose.

NOTE 2: ■ The Series A Preferred stock and long-term note agreements each provide, among other things, for restrictions on the payment of cash dividends. At January 31, 1968, retained earnings of approximately \$1,050,000 were available for the payment of dividends.

NOTE 3: ■ During the year, 6,700 treasury shares were sold to employees under the Employee Purchase Plan. Additionally, 438 shares of common stock which had been previously sold to employees were surrendered to the company, in accordance with the conditions of the plan. The proceeds from the shares sold (\$113,900) less the cost of the surrendered shares (\$7,743) were added to capital in excess of par value.

The company adopted in 1965, a qualified stock option plan under which options may be granted to officers and key employees to purchase common stock at prices equal to the fair market value at the date of grant. During 1967, options for 3,000 shares granted in prior periods were cancelled. At January 31, 1968, there were options outstanding for 17,950 shares at prices ranging from \$16.625 to \$17.93 per share and 33,950 shares of common stock were reserved for this purpose. Options granted in 1963 are exercisable ratably over a four-year period commencing two years from date of grant; options granted in 1966 may be exercised in four equal annual instalments commencing one year from date of grant.

NOTE 4: ■ The company has long-term leases on all of its stores and also leases on fixtures in four of the stores. These leases expire at various dates from 1972 to 1994. Total lease payments charged to operating expenses in 1967 amounted to \$3,119,000. The minimum rental commitment for 1968 is \$3,085,000.

NOTE 5: ■ The balance sheet as of January 31, 1967, and the statements of income and retained earnings for the year then ended, which are presented for comparative purposes, were examined and reported on by public accountants other than Arthur Andersen & Co.

Opinion of Independent Accountants

To the Stockholders and the Board of Directors of Rhodes Western:

We have examined the balance sheet of Rhodes Western (a California corporation) as of January 31, 1968, and the related statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and related statements of income and retained earnings present fairly the financial position of Rhodes Western as of January 31, 1968, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

San Francisco, California,
March 12, 1968.

ARTHUR ANDERSEN & CO.

<i>1964</i>	<i>1963</i>	<i>1962</i>	<i>1961</i>	<i>1960</i>	<i>1959</i>
\$56,948,324	\$50,044,477	\$46,035,273	\$45,516,456	\$46,069,861	\$40,704,446
1,789,495	2,462,718	2,295,074	2,410,895	3,201,566	2,475,662
715,000	1,260,000	1,190,000	1,250,000	1,675,000	1,270,000
1,074,495	1,202,718	1,105,074	1,160,895	1,526,566	1,205,662
1.49	1.72	1.58	1.66	2.19	1.72
25,000					
701,882	700,221	699,808	700,710	595,321	556,816
1.00	1.00	1.00	1.00	.85	.80
1,024,529	425,961	506,198	901,837	1,197,153	543,427
633,250	785,054	834,802	802,213	751,554	625,280
13,026,294	10,804,115	3,249,488	9,628,071	9,542,428	8,944,980
12,176,226	10,019,604	8,866,276	8,678,698	7,745,446	6,713,753
19,963,852	17,086,704	16,595,316	16,621,038	16,787,803	16,823,246
4,572,137	4,180,858	4,539,951	4,873,740	4,771,203	4,322,557
31,685,664	27,440,462	26,775,009	26,109,278	27,137,693	26,428,226
6,000,000	6,000,000	6,440,000	6,880,000	7,320,000	7,760,000
16,594,730	16,212,781	15,696,893	15,323,788	14,786,624	13,922,368
23.63	23.15	22.45	21.85	21.23	19.89
1,917	1,994	2,000	2,135	2,042	2,013
2,467	2,200	2,093	2,050	2,069	1,868
11	9	9	9	8	7

RHODES TEN YEAR SUMMARY OF OPERATIONS

<i>Years Ended January 31</i>	<i>1968</i>	<i>1967</i>	<i>1966</i>	<i>1965</i>
Net sales	\$69,639,283	\$69,061,842	\$65,974,224	\$63,544,037
Income before federal income taxes	2,299,058	2,132,077	1,878,285	1,419,619
Federal income taxes	1,085,000	1,035,000	790,000	560,000
Net income	1,214,058	1,097,077	1,088,285	859,619
Per common share	1.51	1.35	1.33	1.01
Dividends paid				
Preferred stock	150,000	150,000	150,000	150,000
Common stock	704,284	705,057	705,044	704,428
Per common share	1.00	1.00	1.00	1.00
Additions to properties	272,197	293,929	261,794	358,712
Depreciation and amortization	627,155	693,168	693,519	750,252
Accounts receivable	14,973,382	14,253,017	14,168,020	13,574,239
Merchandise inventories	15,534,767	13,536,757	13,040,829	12,114,756
Working capital	23,550,827	23,324,597	23,145,012	22,863,375
Properties, net	2,994,318	3,348,490	3,747,729	4,180,597
Total assets	35,631,162	35,215,850	35,166,658	34,313,862
Long-term debt	7,000,000	7,500,000	8,000,000	8,500,000
Stockholders' equity	17,463,492	17,081,191	16,887,976	16,643,593
Per common share	24.81	24.32	23.94	23.61
<i>At year end:</i>				
Shareholders, common stock	1,591	1,706	1,786	1,904
Employees	2,404	2,514	2,665	2,552
Stores in operation	13	13	13	12

Rhodes